

**A Good Tax System: Benefits of
Neutral Treatment of Saving and
Consumption**

by

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Multiple Taxation of Saving One Tax on Consumption, Four Taxes on Saving

Layer 1 – Tax on Earnings

Income is taxed when earned. If it is used for consumption, there is usually no further federal tax.

Layer 2 – Personal Income Tax on Returns

If the income is saved, the returns are taxed as interest, dividends, capital gains, or non-corporate business profits.

Layer 3 – Corporate Income Tax

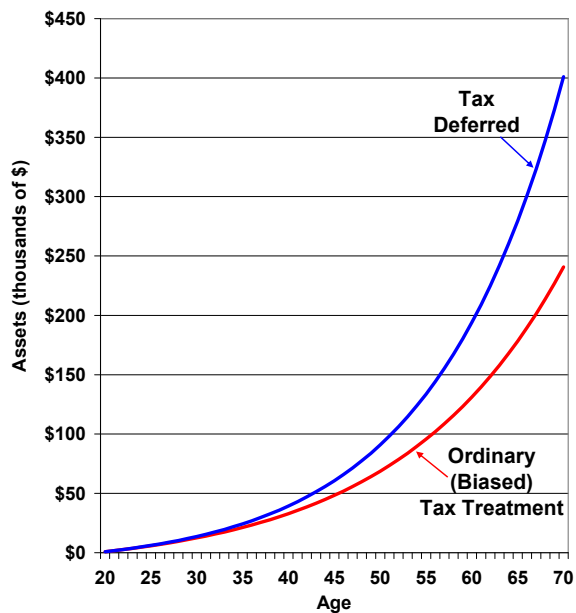
If the saving is in corporate stock, the corporate tax hits the income before it is either paid out to shareholders or reinvested to boost future earnings.

Layer 4 – Transfer (Estate and Gift) Tax

Another tax on already taxed assets.

(Similar taxes at the state and local levels increase the multiple taxation.)

Advantage Of Tax Deferred Saving Over Ordinary (Biased) Tax Treatment: Build-up Of \$1,000 Saved per Year



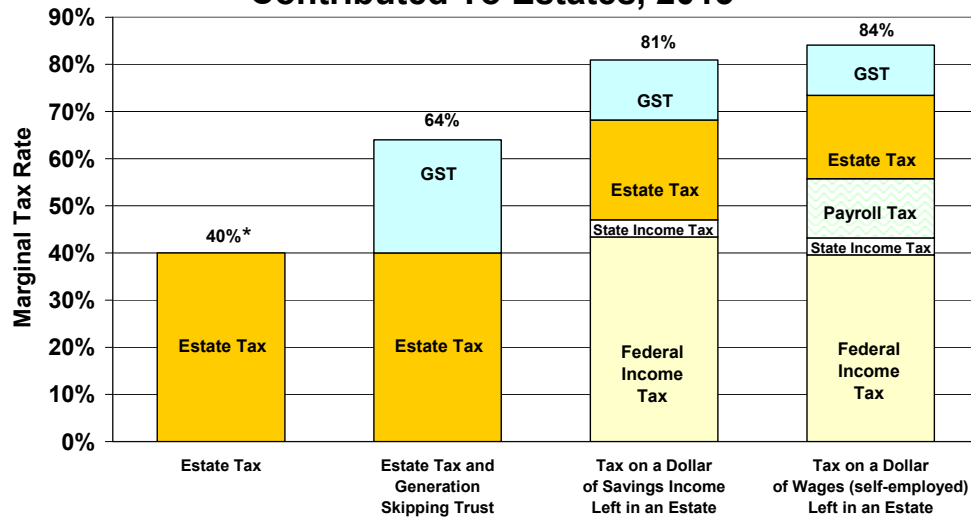
Saving from age 20 onward, under tax-deferred system and ordinary "double taxation" (7.2% interest rate, 20% tax rate).

Multiple Taxation of Corporate Income

(Federal taxes only)	(a) Retained Earnings, Pre-2003 Act	(b) Dividend Payout, Pre-2001 Act	Retained Earnings & Dividends	
			(c) 2003 Act	(d) 2013 Act
1) Corporate Income	\$1.00	\$1.00	\$1.00	\$1.00
2) Corporate tax at top rate	\$0.35	\$0.35	\$0.35	\$0.35
3) After-tax corporate income: Either retained, raising stock price (columns (a), (c)), or paid as dividend (col. (b), (c))	\$0.65	\$0.65	\$0.65	\$0.65
4) Individual income tax at top rate (dividends as ordinary income, retained earnings as capital gain)*	\$0.13 (tax rate 20%)	\$0.2574 (tax rate 39.6%)	\$0.0975 (tax rate 15%)	\$0.1547 (tax rate 23.8%)
5) Total tax	\$0.48	\$0.6074	\$0.4475	\$0.5047
6) Total tax rate	48%	60.74%	44.75%	50.47%
7) Income left to shareholder	\$0.52	\$0.3926	\$0.5525	\$0.4953

* Top corporate rate excludes corporate surtaxes, and top individual rate ignores phase-outs of exemptions and deductions and taxation of Social Security, which may push effective top tax rates higher than statutory rates. Retained earnings are assumed to trigger a long-term capital gain with a maximum rate of 20% or 15% plus the new 3.8% HI capital income tax. Short-term gains are taxed at ordinary tax rates.

Marginal Tax Rates On Estates And Income Contributed To Estates, 2013



* 40% Estate Tax Rate became effective in 2013.
Assumes married couple in 39.6% tax bracket, who are self-employed, with a 6% state income tax.
Investment Income Surtax applies to savings income but not to wage earnings.

Present Value of Current Law Capital Consumption Allowances per Dollar of Investment Compared to Expensing (First-Year Write-Off)

Asset lives:		3 Yrs	5 yrs	7 yrs	10 yrs	15 yrs	20 yrs	27.5 yrs	39 yrs
Present value of first-year write-off of \$1 of investment:		\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
Present value of current MACRS write-off of \$1 if inflation rate is:	0%	\$0.96	\$0.94	\$0.91	\$0.88	\$0.80	\$0.74	\$0.65	\$0.55
	3%	\$0.94	\$0.89	\$0.85	\$0.79	\$0.67	\$0.59	\$0.47	\$0.37
	5%	\$0.92	\$0.86	\$0.81	\$0.74	\$0.60	\$0.52	\$0.39	\$0.30
Assumes a 3.5 percent real discount rate, 3-20 year assets placed in service in first quarter of the year, 27.5 - 39 year assets placed in service in January.									

BENEFITS OF A SAVING-CONSUMPTION NEUTRAL TAX*
ECONOMIC AND BUDGET CHANGES VERSUS CURRENT LAW
 (billions of 2015 dollars except as noted)

GDP	12.7%
\$GDP (\$ billions)	\$2,250
Private business GDP	13.3%
Private business stocks (equipment, structures, etc.)	38.7%
Wage rate	9.8%
Private business hours of work	3.2%
Full-time Equivalent Jobs (in thousands)	3,117
Static federal revenue estimate (GDP assumed constant)	-\$416
Dynamic federal revenue estimate (with GDP change)	-\$37
% of static revenue drop regained due to faster growth	91.1%
GDP gain per \$1 of dynamic revenue loss	\$60.72

*Full expensing; corporate rate 25%; no tax on capital gains or dividends;
 Individual rates 15% and 25%; no AMT, Peps, or Pease; no estate & gift tax.